

COMMUNITY CHOICE AGGREGATION **INTRODUCTORY REPORT**

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Prepared by California Clean Power

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1. INTRODUCTION

Community Choice programs are operating successfully in California and in other states. Existing programs have proven out the benefits of Community Choice for residents and businesses, the environment, and the economy.

Mirroring California's existing Community Choice programs is a viable path forward for some jurisdictions. In particular, this approach is viable for communities with a large population base or that share the same goals and values regionally across multiple jurisdictions. However, California Clean Power provides a new path forward, emphasizing local control and revenue, and providing any community regardless of size with the opportunity of having its own program.

Because of this, communities must now decide how their program should function, not whether their program can function. By law, all Community Choice programs in California must be government programs, without exception, but each community must choose how to staff and support its program, along with the suite of services the program will provide for its residents.

This document provides foundational information for jurisdictions exploring Community Choice. When structured appropriately, with thoughtful risk management strategies and skilled expertise responsible for daily operations, the operational risks and financial risks of a Community Choice program can be mitigated significantly, and the benefits are real.

2. COMMUNITY CHOICE – HISTORY & BACKGROUND

2.1. History of Public Power in California

California has a long and robust tradition of publicly owned electric utilities ("POUs"). Some California POUs have been in operation since as early as 1887, and currently approximately 46 POUs¹ serve close to 25%² of all of California's electric consumption.

¹ Information excerpted from: California Energy Commission
www.energy.ca.gov/sb1/pou_reports/Publicly_Owned_Utility_Company_Programs.pdf

These public entities represent the entire spectrum of California communities, ranging from the largest provider, Los Angeles Department of Water and Power, which is California's third largest electric utility, to the City of Biggs Electric Utility, which serves a population of approximately 1700 citizens.

The benefits of a government run enterprise, such as access to tax exempt financing, exemption from federal taxation and no need for a profit margin, give most California POU's a considerable advantage over investor owned electric utilities ("IOUs") such as Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E).

Investor owned utilities have substantially increased their electricity rates in recent times. In 2014, SCE raised its residential rates by 8%; in 2015, PG&E raised its electricity rates by 5.9% and SDG&E is planning to increase its rates by 7.5% in 2016. POU's as a group have a comparatively excellent record of providing lower and more stable prices to their communities, making them a highly attractive alternative to IOUs.

Around the beginning of the 20th century, there were over 4,000 individual electric utilities, each operating in isolation. Almost all of them used low-voltage, direct current (DC) connections from nearby generating power plants to the distribution lines serving their local customers. The power industry soon began to favor the adoption of alternating current (AC) technology, which can transmit electricity over longer distances than direct current. The more widespread use of AC electricity allowed the industry to build larger power plants that did not need to be located close to the utilities' customers.

As the demand for electricity grew, particularly in the post-World War II era, electric utilities found it more efficient to interconnect their transmission systems. This enabled utilities to share the benefits of building larger and often jointly owned generating units to serve their combined electricity demand at the lowest possible cost. Interconnection also reduced the amount of extra capacity that each utility had to hold to ensure reliable service. Over time, three large interconnected systems evolved in the United States.

2 The Clean Energy Race. Wisland, Laura and Haya, Barbara. Union of Concerned Scientists (2012). www.ucsusa.org/sites/default/files/legacy/assets/documents/clean_energy/The-Clean-Energy-Race-Full-Report.pdf

Today, these three large interconnected systems separately serve the eastern and western halves of the United States and Texas.³

The emergence of new POU's or the expansion of existing territory has been virtually non-existent in recent times. The inability to expand POU service is largely due to the difficult process of municipalization, which includes incurring the cost of either building or acquiring electric facilities that include miles of transmission and distribution wires, substations, generation facilities, metering equipment for every customer, and vast amounts of other infrastructure such as computer systems, service trucks, and call centers.

2.2. California Energy Crisis

In 1998, California deregulated the electricity industry through AB 1890, giving all electric consumers served by the IOUs the ability to purchase electric generation from any supplier. The act was hailed as a historic reform that would reward consumers with lower prices, reinvigorate California's then-flagging economy, and provide a model for other states.⁴ Referred to as Direct Access, the law required the IOUs to allow third party electric generation suppliers to use all of the existing IOU equipment to deliver, meter and bill for their alternative electricity supply. In many ways, Direct Access is similar to how the telecommunications industry was deregulated, allowing third party providers to use the wires of the telephone companies. Most of the customers who opted for Direct Access paid significantly less for alternative electricity supply, and some opted for energy that had more renewable content.

While the causes and contributing factors to the energy crisis in California in 2000-2001 are manifold and complex, virtually all observers saw the State's deregulation plan as a failure and major reason for the crisis.⁵ Following the California energy crisis in 2000,

³ Information excerpted from: The US Energy Information Administration
www.eia.gov/energy_in_brief/article/power_grid.cfm

⁴ The California Electricity Crisis: Causes and Policy Options. Weare, Christopher. Public Policy Institute of California. (2003).

⁵ Causes and Lessons of the California Electricity Crisis. Congressional Budget Office (2001).

existing Direct Access customers were allowed to continue service from alternative providers, but, with the exception of small annual increments over the previous four years, no new Direct Access is currently permitted.

In the aftermath of the energy crisis, and recognizing that the suspension of Direct Access removed a valuable alternative to the very difficult process of municipalizing and that POU's fared the energy crises better than the IOUs, California passed the Community Choice Aggregation law Assembly Bill (AB) 117.

2.3. Community Choice Aggregation, Assembly Bill 117

In 2002, Community Choice Aggregation (AB 117) was signed into law. Community Choice Aggregation (CCA, sometimes referred to as Community Choice Energy – CCE – or simply Community Choice) enables California cities and counties, together under a Joint Powers Authority (JPA) or individually, to supply electricity to customers within their borders. A defining feature of AB 117 is that the IOU continues to own and operate the electric distribution system and provide metering, billing, credit and collection, call center and other customer service functions. In addition, AB 117 and subsequent legislation (SB 790), also established structures to encourage cooperation and to strictly regulate IOU opposition to communities attempting to establish, or already operating, a Community Choice program.

Unlike Direct Access under AB 1890 (Direct Access), which required each customer to specifically choose non-IOU service (“opt-in” to Direct Access), AB 117 gives communities the right to procure their own electric energy as an essential governmental function – like water, sewer, or garbage service. In this way, California established Community Choice as the “default” service. This means all utility customers within the established boundaries are automatically customers of the local government’s Community Choice program unless they “opt-out” of the program.

While Community Choice has similarities to local power through POU's, a fundamental difference exists in ownership of critical energy grid and other infrastructure, noted above. Unlike a POU, such as the Los Angeles Department of Water and Power or the Sacramento Municipal Utility District, a Community Choice program does not own the transmission and delivery systems (i.e., the poles and wires). Instead, a Community

Choice program is responsible for providing the energy commodity (i.e., the electrons themselves) to its participants, which may or may not entail ownership of electric generating resources.

3. COMMUNITY CHOICE – OVERVIEW & LANDSCAPE

The benefits of Community Choice have been discussed at the conceptual level and proven out in practical terms by operating programs. At the most basic level, these benefits can be organized into the three categories of environmental, economic, and local control.

3.1. Environmental Impact

In the category of environmental, particularly within California, Community Choice can increase the use of renewable energy, increase the demand for new renewable energy projects within the state, and provide a new avenue for smaller-scale local renewable projects. Because of this, in part or in combination, Community Choice can be one of the most significant strategies to meet a community's greenhouse gas (GHG) reduction goals. Collectively, therefore, Community Choice can also help to meet the State's GHG reduction goals.⁶

The increase in renewable energy use arises from the community's ability to establish a renewable portfolio as a baseline service level or premium level that exceeds that of the IOU. Although subject to market price realities, existing Community Choice programs, along with analysis of potential Community Choice programs, bares out this point.

While sufficient renewable power currently exists to meet market demand within the State, over the long-run, an increasing market demand for renewable power through Community Choice over the long-run will necessarily spur the development of additional large-scale projects and clean energy jobs to meet the growing demand. In addition, communities interested in local generation projects can leverage Community Choice

⁶ California Governor Jerry Brown issued an executive order to reduce GHG levels by 40 percent below the 1990 levels by year 2030. (April 29, 2015) <http://gov.ca.gov/news.php?id=18938>

program revenue to create new projects or provide a stimulus to expand existing community projects in the short run.

3.2. Economic Impact

In the category of economic benefits, a fundamental characteristic of Community Choice is that revenue paid by ratepayers for energy generation stays within the community rather than going to the IOU. Numerous studies have demonstrated that keeping revenue local, by shopping at locally owned markets for example, has a profound economic impact on the community. Further, if program revenues are leveraged to invest in local projects, as noted above, those investments can have a positive job-creation impact.

Because Community Choice can lower electricity rates as well as potentially stabilize those rates for years, the economic benefits extend to daily savings for individuals, businesses, and governments as well. Depending on energy use and specific rate reduction, these savings can be minimal to significant. Moreover, Community Choice programs have the ability to target rate reductions to attract business growth in their community or provide larger reductions to low-income residents.

3.3. Local Control

In the category of local control, regardless of how the program is structured or operated, Community Choice delivers a level of public participation and control that is not currently available through an IOU. Implicit to this control is the introduction of consumer choice, providing residents and businesses with a choice to support the locally constructed program or remain with the IOU's service – a choice that does not exist without the formation of a Community Choice program.

Community Choice programs are required to have a governing board, with all of the public decision making processes and assurances required of government agencies. Because of this, no matter how the governments staffs or provides for daily operations of the Community Choice program, key policy decisions are necessarily within the public domain.

3.4. Existing Community Choice Programs

As of the date of this report, there are three successfully operating Community Choice programs in California, Marin Clean Energy (MCE), Sonoma Clean Power (SCP), and the City of Lancaster.⁷ As the benefits of Community Choice are proven through successful operation of these programs, a growing number of jurisdictions in California are evaluating in concept or taking active steps in pursuing Community Choice. Indeed, when considering the individual participating jurisdictions just within the existing programs, there are over 20 local communities enjoying the benefits of Community Choice in California.

Founded in 2010, Marin Clean Energy, operated by the Marin Energy Authority, a Joint Powers Authority (JPA), is the first operational Community Choice program in the State. MCE was introduced in phases. The first phase included about 8,000 Marin accounts made up of residential, commercial, and municipal customers. In August 2011, MCE enrolled another 5,500 Marin accounts, the majority of which are residential, with a small number of commercial accounts. MCE completed Marin customer enrollments in July 2012 and began offering electric service to Richmond customers in July 2013, then to unincorporated Napa County, and the cities of Benicia, El Cerrito, and San Pablo, in 2015.

Currently, MCE provides three options of renewable power at varying rates. The baseline service level includes 50% renewable power. Two optional levels of 100% renewable, and 100% of local solar are also available at a premium rate. Currently, SCP provides two options of renewable power for varying rates. The baseline service includes 33% renewable power, with an optional 100% renewable power available at a premium rate.

Like MCE, Sonoma Clean Power is a government agency, independently run by a JPA comprised of Sonoma County and all cities within the County, excluding the City of

⁷ For additional information on services, program documents, financial information, and organization see: Marin Clean Energy www.mcecleanenergy.org; Sonoma Clean Power www.sonomacleanpower.org; and Lancaster Choice Energy www.lancasterchoicenergy.com/index.php. The Kings River Conservation District on behalf of San Joaquin Valley Power Authority (SJVPA), also explored establishing a Community Choice program.

Healdsburg, which operates a municipal power provider.⁸ Unlike MCE, SCP has focused its service area within the jurisdictional boundaries of Sonoma County.

Both MCE and SCP have set the current baseline service rate under that of the IOU, PG&E. In addition, both have offered energy efficiency programs to customers. Reflecting the rates and program offerings, both MCE and SCP have strong support within their respective service areas with differing, but low “opt-out” rates.

Over the prior two years, the City of Lancaster has examined Community Choice, leading to the development of a stand-alone program, Lancaster Choice Energy. The City has launched the program in a phased approach starting with municipal buildings, beginning in May 2015, with anticipated introduction of commercial accounts in late 2015, and then residential service in late 2016.

3.5. Community Choice Programs in Other States

In addition to California, other states have Community Choice, also referred to as Municipal Electricity Aggregation in other states including Illinois, Massachusetts, Ohio, Rhode Island, New Jersey and New York. Illinois is leading the nation with more than 700⁹ communities setting up Municipal Aggregation programs.

While Community Choice in California has embraced a distinct goal to increase renewable power generation and use, the goals of some of other programs are not necessarily in alignment with those of California’s efforts, and are instead primarily focused on decreasing rates.¹⁰ However, despite the different goals, the successful operation of programs in other states further demonstrates the feasibility of Community Choice.

Each of the existing Community Choice programs in other states offers illumination of California’s efforts. Illinois has focused its efforts on decreasing rates with wide adoption

⁸ Participating cities include Cloverdale, Cotati, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, and the Town of Windsor.

⁹ Information excerpted from Plug In Illinois: www.pluginillinois.org/MunicipalAggregationList.aspx

¹⁰ Some Community Choice programs in other states have advanced significant renewable energy projects.

by local governments, including the City of Chicago, suggesting that participation is highly influenced by rate setting. Programs in Massachusetts have spurred local generation projects, providing for new solar projects throughout Cape Code and Martha's Vineyard.¹¹

4. FORMATION PROCESS

There are specific legal requirements for establishing Community Choice, as well as operational considerations that will take on varying importance depending on community priorities. The legal requirements for establishing a Community Choice program are detailed in California Public Utilities Code (CPUC), primarily Section 366.2¹² but also in other California statutes and CPUC decisions and guidance.

4.1. Discretionary Steps

Existing programs have undertaken a range of public engagement efforts, some extending multiple years. Some of these additional activities have included resolutions of support from city councils, holding public forums and town hall style education forums, conducting feasibility reports, and the establishment of community advisory boards. Much of this work is intended to educate and inform residents and businesses as Community Choice programs had not yet been or had only recently been established.

A community's desire to take these discretionary pre-formation steps will depend greatly on local community expectations and conditions, as well as the community's budget as these activities can require significant resources. While good government practice includes measures of public engagement, Community Choice is growing in familiarity within California and provides direct benefits to the government and community.

¹¹ For a brief summary of Community Choice programs by State, see The National Conference of State Legislatures <http://www.ncsl.org/research/energy/community-choice-aggregation.aspx> and LEAN Energy US <http://www.leanenergyus.org/cca-by-state/>

¹² Public Utilities Code (PUC Section 360-380.5): <http://www.leginfo.ca.gov/cgi-bin/displaycode?section=puc&group=00001-01000&file=360-380.5>

4.2. Required Steps

Below is a description of the essential requirements for establishing a Community Choice program:

1. Once a governing board – such as a City Council or a Board of Supervisors – is prepared to move forward with establishing a Community Choice program, the first step is to pass an ordinance consistent with the PUC Section 366.2©(12).

2. After the ordinance is passed, the next step is the preparation of a Community Choice Implementation Plan and Statement of Intent for submission to the CPUC.¹³ Pursuant to PUC Section 366.2©(3), the Implementation Plan must ultimately be considered and adopted at a duly noticed public hearing of the Community governing body and shall contain all of the following:
 - An organizational structure of the program, its operations, and its funding.
 - Rate setting and other costs to participants.
 - Provisions for disclosure and due process in setting rates and allocating costs among participants.
 - The methods for entering and terminating agreements with other entities.
 - The rights and responsibilities of program participants, including, but not limited to, consumer protection procedures, credit issues, and shutoff procedures.
 - Termination of the program.
 - A description of the third parties that will be supplying electricity under the program, including, but not limited to, information about financial, technical, and operational capabilities.

3. Pursuant to PUC Section 366.2©(4), the Statement of Intent must state that the Community Choice program will provide for the following:
 - Universal Access.
 - Reliability.

¹³ For information related to Implementation Plans and Statements of Intent, see:

http://www.cpuc.ca.gov/PUC/energy/Retail+Electric+Markets+and+Finance/070430_ccaggregation.htm as well as MCE <http://www.mcecleanenergy.org>; Sonoma Clean Power <https://sonomacleanpower.org>; and Lancaster Choice Energy <http://www.lancasterchoiceenergy.com/index.php>

- Equitable treatment of all classes of customers.
 - Any requirements established by state law or by the commission concerning aggregated service, including those rules adopted by the commission [CPUC] pursuant to paragraph (3) of subdivision (b) of Section 8341 for the application of greenhouse gases emission performance standard to community choice aggregators.
4. Concurrent with the preparation of the CPUC submissions, a Community Choice service agreement is executed with the IOU, and a bond or collateral is posted in accord with the IOU service agreement. As indicated in PUC Section 394.25(e), a “re-entry” bond, which is currently set at \$100,000, must be posted with the CPUC to cover costs related to the involuntary return of a community from Community Choice service to utility service.
 5. Executing the IOU service agreement concurrently with work on the Implementation Plan and Statement of Intent is advised because the service agreement must also be submitted to the CPUC. Following the adoption of the Implementation Plan and Statement of Intent, the execution of the utility service agreement along with posting of a bond or collateral with the utility, and the posting of the re-entry bond with the CPUC, the Community Choice program must also formally register with the CPUC.
 6. After all the submissions are deemed complete and sufficient, pursuant to PUC Section 366.2(c)(7), the CPUC has 90 days to certify the receipt of all needed Community Choice submissions, thereby allowing the program to begin service to customers. Consistent with CPUC Decision 05-12-041, the CPUC does not “approve” or “reject” the Implementation Plan, but rather assures that the Community Choice plans and program elements are consistent with law, regulations and CPUC rules designed to protect customers. The CPUC also determines the appropriate costs, known as the Power Charge Indifference Adjustment (PCIA), to be assessed Community Choice customers. Because electric energy is frequently secured through long-term commitments, the essential purpose of the PCIA is to ensure that customers that continue to

receive utility electric energy do not pay over market costs that would otherwise be paid by the departing Community Choice customers.

Completion of all of the above requirements officially establishes the Community Choice program. However, any Community Choice program must also consider the necessary day-to-day activities that are needed to operate a successful program. Broadly categorized, these activities include power procurement and scheduling; financing; regulatory and compliance; customer service and billing; policy and advocacy; and general administration.

4.3. Procurement and Scheduling

Related to power procurement and scheduling, prior to launching service, a number of operational functions must be established. Power procurement and scheduling are inextricably linked in that they reference the act of securing power for customers, and that the electric usage of customers is matched with scheduled power.

From both a cost and core service perspective, procurement and scheduling as functions of a Community Choice program hold perhaps the greatest magnitude. For example, power procurement and scheduling related costs can represent 90% of total Community Choice expenses. Considerable cash, collateral or equivalent are needed to securitize power purchasing, and highly experienced professionals should oversee power procurement and scheduling. Depending on the size of the community, the security can range from the low millions of dollars to many millions of dollars. A relationship must also be established with the California Independent System Operator to deliver power to customers (CAISO).¹⁴

Implicit in the discussion of power procurement is the need for sufficient financing to purchase power as well as sufficient resources to fund the infrastructure needed to operate the Community Choice program itself. The precise amount of financing needed will depend greatly on several variables, such as the size of community and amount o

¹⁴ The CAISO is an independent nonprofit public benefit corporation that serves as the impartial grid operator for the bulk of the state's power grid, and opens access to the wholesale power market that is designed to diversify resources and lower prices

power needed, collateral requirements of power sellers, desired size of program staff and infrastructure. The experience of existing programs has shown this initial capital need to be in the multiple millions of dollars, which can eventually be recovered through successful operation of the program over time.

Related to regulatory and compliance activities, PUC Section 366.2 provides for noticing requirements. Specifically, prior to launching service, a Community Choice program must provide written notices to all customers twice in the two months prior to the actual start of service and twice in the two months following the start of service. The notices must inform the customer of automatic enrollment in the Community Choice program, the terms and conditions of the services offered, and a mechanism for opting out of the Community Choice program.

A number of other ongoing regulatory and compliance requirements related to procurement (e.g. Resource Adequacy and Renewable Portfolio Standard), customer service (e.g. new and departing customers), and Community Choice in general (e.g. joint rate mailers) also apply. Assistance from highly experienced professionals is also needed in these areas, either as staff of the Community Choice program or via a contractual relationship to ensure the Community Choice program remains in compliance.

4.4. Billing

Another central operation to running a Community Choice program is to manage customer service and billing. On behalf of the Community Choice program, the IOU sends a standard bill to Community Choice customers for the electric energy portion of the total utility bill, and then remits the payments to the Community Choice program. The Community Choice program must collect the electric usage data from the IOU, compute the amount of the bill, and relay the billing information back to the utility for inclusion on the utility bill.¹⁵

¹⁵ The Community Choice program pays the IOU a per-account fee for the billing and related account services. An alternative option is to pay the utility an additional amount per account to compute the bills on behalf of the Community Choice program

4.5. Customer Service

While not required by law or regulation, Community Choice programs are well served by providing a call center and a website to assist customers in easily finding information about the program, choosing among the services provided by their community, or opting out of the program. The utility continues to process the vast majority of electric service related customer service inquiries since few functions are entirely within the domain of the Community Choice program. For this reason, providing a call center and a website that addresses areas that are strictly within the Community Choice program's purview promotes good will and best customer service practices.

4.6. Operational and Other Risks

There are several reports and studies that provide a discussion of operational risks associated with Community Choice.¹⁶ While there is always some level of risk in establishing a Community Choice program – just as there is risk with any endeavor in the public or private sector – these reports call out various strategies to either eliminate or mitigate risks. Although there are various permutations of pre-launch, operational, and other risks, two primary themes arise in financial or market risk and regulatory or legislative risk.

The single greatest risk to any Community Choice program is financial, which is driven primarily by the volatility of the energy market. If energy prices exceed forecasts, leaving a Community Choice program with a revenue shortage, the program will likely need to raise customer rates to cover the shortage. Similar price risks can occur with scheduling that result in over or underestimation of the amount of electric energy needed to serve customers. If the estimate is significantly inaccurate, the Community Choice program can incur expenses related to the cost of buying or selling electric energy in the spot, or real time, market. These risks can also lead to unexpected migration of customers from the Community Choice program back to the utility (thereby decreasing the amount of

¹⁶ Report of the Feasibility of Community Choice Aggregation in Sonoma County, Dalessi Management Consulting/MRW Associates, October 2011; The City of Hermosa Beach: Assessing Community Choice Aggregation, UCLA, June 2014; Community Choice Aggregation Base Case Feasibility Evaluation, Navigant Consulting, May 2005; Community Choice Aggregation: The Viability of AB 117 and Its Role in California Energy Markets, UC Berkeley, June 2005; Community Choice Aggregation, Local Government Commission

forecasted revenue from customers).

Proper and prudent risk management strategies along with best management practices help to mitigate these risks. In addition, through Community Choice, local communities can help to further mitigate these risks by creating locally controlled generation projects. It should also be noted, as highlighted at the outset of this report, POUs have generally been able to manage financial and market risks as successfully – if not more successfully by some measures – than the IOUs in California.

Changes to laws and regulations that impose additional burdens on the Community Choice may present a significant risk. In 2014, AB2145 proposed key changes, one of which was to remove the automatic opt-in status that would have dramatically impacted the viability of starting new Community Choice programs. AB2145 died on the California Senate floor, in no small part due to community advocacy that raised awareness of the bill's potential grave impact on the viability of Community Choice Aggregation. While it is impossible to determine what future regulation and legislation might be, the uncertainty is precisely why this area remains an ongoing risk. Active and coordinated engagement with State policy makers and regulators, therefore, is an important mitigation strategy.

5. CONCLUSION

Community Choice provides real benefits to municipalities and communities. Establishing a program can be a resource-intensive process, particularly in regard to the finances, expertise, and time needed. Because of this, only three programs have been able to launch over the last decade.

A jurisdiction should assess its options and priorities in moving forward with Community Choice for the benefit of its businesses, residents, and for the local environment. Certainly, for large jurisdictions or a group of smaller jurisdictions with a history of successful regional program implementation, replicating the efforts of SCP and MCE present a viable path forward.

Times are changing. More options are becoming available for jurisdictions that want Community Choice. In particular, California Clean Power provides an option for

jurisdictions that want their own program, but are either too small to generate enough program revenue to support a new public agency to operate the program, that have unique priorities that can be met by joining another program, or for political or other reasons that don't wish to create a new public agency to administer the program.